The Commonwealth of Massachusetts

Office of the Commissioner of Banks
One South Station
Boston, Massachusetts 02110

MITT ROMNEY
GOVERNOR

KERRY HEALY
LIEUTENANT GOVERNOR

THOMAS J. CURRY
COMMISSIONER OF BANKS

BETH LINDSTROM
DIRECTOR
OFFICE OF CONSUMER AFFAIRS &
BUSINESS REGULATION

To Whom It May Concern:

The financial services industry, an important segment of which is regulated by the Division of Banks (“Division”), continues to change rapidly and grow increasingly more complex. Consolidation, new technologies, and innovative product offerings will continue to impact this industry and the consumers who utilize their services in 2003 and beyond.

The mission of the Division is to ensure a sound, competitive, and accessible financial services environment. While the economy of Massachusetts, like the rest of the nation, showed continuing patterns of weakness in 2002, the health of the Massachusetts banking industry remained strong. Over the last 36 months, the Division has taken every opportunity to reinforce the need for state-chartered banks and credit unions to adhere to sound underwriting practices in an uncertain economy. The Division will continue to be vigilant in its ongoing examination programs to ensure credit underwriting standards do not weaken.

The Division is also reviewing emerging risks to ensure that the banking and financial services industries are healthy and that consumers are adequately protected. The Division continues to closely examine subprime lending activities of regulated entities to ensure safety and soundness risk is minimized and to ensure that aggressive action is taken against any entity found to be engaging in predatory lending practices.

The following pages include an agency profile, an overview of the industries the Division supervises, a summary of salient market and financial data for Trust Companies, Savings Banks, Co-operative Banks, and Credit Unions, a summary of transactions and legislative and regulatory changes and proposals, as well as consolidated financial data and institution specific management teams and branch locations.

In the coming fiscal year, the Division will continue to promote professional and seamless financial and consumer protection supervision over the entities it regulates. In addition, the Division will expand consumer and industry access to information and services through increased use of technology.

TEL (617) 956-1500 * FAX (617) 956-1599 * TDD (617) 956-1577 *
http://www.mass.gov/dob

As described herein, legislation was signed into law last year as Chapter 456 of the acts of 2002 amending the form and content of this annual report to the Legislature. I am pleased to forward this first annual report pursuant to this amended statute. It was the Division's intention in filing amendments to this statute to be able to combine four reports that previously had been filed separately into one report that would more comprehensively describe and analyze trends affecting the Commonwealth's financial services industry, as well as the Division's responses and policy recommendations. As always, I would welcome your suggestions on additional information or analyses that would be helpful to you, and any other improvements you would recommend.

Very truly yours,

Thomas J. Curry
Commissioner of Banks

I. INTRODUCTION

The Division's mission is to advance the public interest with the highest level of integrity and innovation by ensuring a sound, competitive, and accessible banking and financial services environment. Its 175 managers, examiners, and support staff are responsible for conducting financial safety and soundness, consumer compliance, community reinvestment act compliance, electronic data processing, and trust examinations of these institutions. Accordingly, the Division plays a key role in maintaining depositor confidence in the state's banking system and fostering a positive impact on the Commonwealth's economy.

The Division traces its origins to 1784 with the chartering of The Bank of Massachusetts, the forerunner of the former First National Bank of Boston. Records dating back to 1839 reveal the existence of 118 Massachusetts banks with total combined assets of $53 million. Today, the Division supervises nearly 300 state-chartered banks and credit unions with total combined assets in excess of $190 billion.

The Division also is charged with licensing and examining over 4,000 non-bank financial entities, including mortgage companies, finance companies, check cashers, money transmitters, and collection agencies. These organizations are also regularly examined for financial safety and soundness and compliance with various consumer protection laws and regulations.

2002 ACCOMPLISHMENTS

- Nationwide settlement with Household Finance Corporation resulting in over $13.4 million in restitution to Massachusetts borrowers
- Improved contingency and disaster recovery planning, including emergency e-mail listserve capabilities
- Improved web services based on user survey feedback. Changes include: all major bank and credit union, as well as all licensee applications on the web; all regulations available in both .html and .pdf formats; and a list of all licensees with ability to download into Excel format.
- Submission of comprehensive legislative package, including: additional consumer protections from unfair lending practices; clarification for mergers and conversions; reduction of unnecessary regulatory burden; and modernization of lending and licensing frameworks
- Completed 291 bank and credit union examinations and 432 examinations of non-bank licensees
- Issued over 4,000 license renewals and processed 888 new license applications
- Completed 445 bank and credit union approval requests and issued 144 legal opinions
- Resolved 751 consumer complaints

2003 OBJECTIVES

- Amend existing “wildcard” regulations to enhance the competitive equality of state-chartered banks and credit unions to ensure consumer access to financial services
- Implement a revised anti-money laundering program in the Division’s supervision of depository institutions and money service businesses. This will include enhanced techniques to detect unlicensed and illegal activity.
- Further integrate existing databases to improve the supervision of financial institutions and to enhance learning throughout the Division
- Take a leading role in promoting online submission of corporate applications

II. 2002 REGULATORY OVERVIEW

As of December 31, 2002, the state-chartered banking industry in Massachusetts is sound. Capital levels, which represent an institution's ability to absorb losses and fund growth, are solid despite an uncertain economy. At the same time, the industry's earnings performance has been robust during 2002 due to a strong net interest margin that benefited from considerable deposit inflows over the period and a steep yield curve.

Although asset quality has remained sound, delinquencies in certain loan categories, such as commercial real estate, have shown increases which could become more pronounced if the economy deteriorates. At the same time, residential mortgage delinquency rates and related loan losses did not increase as many have expected them to in 2002 given the Commonwealth's relatively high unemployment statistics. Supporting this stronger than expected credit quality performance has been the continued appreciation in real estate values coupled with historically low interest rates. In 2002, the investment portfolios held by many banks suffered some depreciation, which did, in certain cases, negatively impact capital ratios to a generally minor extent.

Liquidity levels throughout the industry have remained strong, while sensitivity to market risk has been adequately monitored and managed. However, interest rate risk remains a concern in terms of its impact on earnings and capital when interest rates eventually begin to rise.

Finally, the vast majority of the industry's management, i.e., the Boards of Directors/Trustees and senior operating management, is considered capable and seasoned, with generally sound policies, procedures, strategies, and risk management practices. There is very little evidence of the higher risk speculation taking place at this economic downturn relative to the activities undertaken by many bankers in the late 1980s and early 1990s.

The year 2002 saw the broader business sector's reputation suffer significant damage from widely publicized cases of corporate governance scandals and accounting irregularities. In fact, these cases eroded public confidence in the corporate world and have exacerbated a struggling stock market, prolonging national, if not global, economic woes. Fortunately, corporate governance has been a longstanding focus of the Division's supervisory programs. In fact, highly regulated depository institutions, have for many years, been under close scrutiny for insider abuse and conflicts of interest through laws, regulations, regulatory bulletins, the regulatory approval process, and examination procedures. Nevertheless, this issue has come into sharper focus as public confidence in the broader corporate sector has been seriously damaged by recent events. In response to these events, on July 30, 2002, the Sarbanes-Oxley Act of 2002 was signed into law. This law is intended to bolster public confidence in the nation's capital markets and imposes new duties on public companies and their executives, directors, auditors, attorneys, and securities analysts. Furthermore, this law imposes significant penalties for non-compliance.

Most of the provisions of Sarbanes-Oxley apply only to public companies that file a form 10-K with the Securities and Exchange Commission, as well as their auditors and securities analysts. However, although many of the state-chartered depository institutions will not fall under these requirements, the industry is being urged to adopt the guidelines as “best practices.” Again, because the industry is already closely regulated, most of the requirements contained in Sarbanes-Oxley do not represent changes or additions to current practices with regard to corporate governance. Nevertheless, the Division is working to ensure that a proper balance is achieved whereby appropriate controls are in place throughout the industry while the restrictions imposed are not overly burdensome and do not hinder the institutions’ abilities to attract and retain qualified directors and operating management.

At the same time, the Division continues to enhance its existing examination programs to better detect illegal money laundering activities by determining compliance with the Bank Secrecy Act, USA Patriot Act, and other applicable laws and regulations. These augmented examinations are conducted at state-chartered depository institutions as well as non-traditional money services businesses, including foreign transmittal agencies, check cashers, and check sellers. In addition, as part of its examinations of depository institutions, the Division is stressing the need for banks and credit unions to conduct due diligence with regard to their business relationships with money service providers to ensure these companies hold the required licenses and are not engaged in illegal activities. To assist these institutions in achieving their goal of completing the due diligence process and knowing their customers, all licensed foreign transmittal agencies, check cashers, and check sellers are listed on the Division’s web site.

Until fairly recently, the focus of the Division’s efforts to combat money laundering had focused on illegal drug activity. Following the tragic events of September 11, 2001 and the subsequent enactment of the USA Patriot Act, however, examination and enforcement activities have also focused on illegal transfer businesses, which may be utilized to support terrorist activities. Historically, the Division’s efforts to combat money laundering and illegal money transfers have been substantially supported through cooperative relationships with various state and federal law enforcement agencies.

In November 2001, in cooperation with the Division, the Customs Department and FBI shuttered a Dorchester-based illegal money transmitter with potential ties to terrorist organizations. With the Division’s assistance, subsequent arrests resulted in the first conviction under the USA Patriot Act. In 2002, the Division closed another money transmitter that was operating illegal branch locations and significantly underreporting the volume of money that it was transferring abroad.

To date, large depository institutions have improved their effort to thoroughly review their relationships with money service providers and have terminated several relationships with companies, which may or may not have engaged in illegal activities. These institutions are required to report these potential monetary crimes to the Financial Crimes Enforcement Network (FINCEN). Unfortunately, as a result of these actions, the Division has seen a migration of these money service providers to smaller depository institutions. Accordingly, the Division has modified existing examination programs to not only better ensure compliance with the Bank Secrecy Act, USA Patriot Act, and other applicable laws and regulations, but to also better educate financial institutions with regard to their need to properly monitor their money service business customers and ensure all required reports (currency transaction reports and suspicious activity reports) are properly filed.

Predatory lending continues to garner a great deal of attention. Dating back to 1997, the Division has held a zero-tolerance policy regarding predatory lending practices. In 2001, the Division amended its high cost home loan regulations to lower the point and fee thresholds to be considered a high cost home loan and to specifically prohibit certain predatory lending practices for all high cost home loans. These regulations were further amended in 2002 in response to certain changes by the Board of Governors of the Federal Reserve System and comments received by industry and consumer groups.

In addition to the Division's policy and regulatory efforts to combat predatory lending, the Division has also used its enforcement authority to detect predatory lending practices. With existing resources, the Division has implemented a pilot program targeting subprime lenders to determine compliance with the Division's new regulations and determine whether any predatory lending practices are occurring. In addition, in response to complaints from individual consumers and community organizations, the Division undertook an investigation of Household Finance Corporation. As a result of this investigation, the Division made a referral to the Office of the Attorney General. Similar action across the country resulted in a nationwide settlement with the states' attorneys general and banking departments resulting in a $487 million settlement of which $13.4 million will go to Massachusetts consumers.

III. SUMMARY OF MAJOR CORPORATE TRANSACTIONS

The number of state-chartered financial institutions was reduced by nine during the year as a result of mergers, from 302 to 293. Four of the transactions involved state-chartered banks merging with and into out-of-state banks. Four of the transactions were mergers among state-chartered institutions. Two of these transactions were between banks within the same holding company. One merger was for a state-chartered bank merging with and into a federally-chartered bank in Massachusetts. Of the nine transactions resulting in a reduction of state-chartered banks, four involved savings banks, three involved trust companies, and one involved a co-operative bank. The number of credit unions remained unchanged. There was one transaction whereby a California-chartered savings bank merged with and into a trust company. During the year, three savings banks completed their reorganizations into mutual holding companies, none of which issued minority stock. As a result, at the end of the year, the state-chartered banking system consisted of 81 savings banks, 74 co-operative banks, 27 trust companies, and 111 credit unions. The Division also has one building and improvement association and one out-of-state private bank under its jurisdiction, which are included in this annual report.

There was a net decrease of 27 savings bank branches, as a result of the transactions described above. The number of co-operative branches and credit union branches remained relatively constant, with a net increase of six co-operative bank branches and a net increase of one credit union branch. The largest net increase was of 65 trust company branches, primarily due to the large number of Citizens Bank branches opening in supermarkets in which Fleet Bank branches had previously been located.

IV. NEW BANKING LAWS

In the second year of the 2001-2002 session of the General Court, there was an increase in the number of laws passed relative to banks and banking. These laws amended statutes governing a broad scope of powers and activities, ranging from the establishment of so-called wild card powers for banks to the establishment of authority for credit unions to sell insurance products to the creation of a more modern, competitive structure for banking and credit union retirement associations. Ten bills significantly affecting banks and banking were signed into law during 2002, as follows:

- **Chapter 64 of the Acts of 2002, An Act Relative to the Declaration of Non-cash Dividends by Trust Companies**

  The sole purpose of this Act is to provide separate authority and timing for the payment of non-cash dividends. Although the Act amends the trust company statute, it is also applicable to savings banks and co-operative banks in stock form.

- **Chapter 79 of the Acts of 2002, An Act Relative to the Governance and Management of State-Chartered Banks**

  This Act makes various changes to the corporate governance statutes for state-chartered banks. Many of these changes are intended to reduce the regulatory burden on state-chartered savings banks, state-chartered co-operative banks, and state-chartered trust companies. This Act increases the maximum amounts which state-chartered savings banks, state-chartered co-operative banks, and state-chartered trust companies may loan to their officers or trustees. The Act also eliminates the requirement that a state-chartered co-operative bank include the word “co-operative” in its corporate name. There are several additional amendments relative to other corporate governance matters, including board composition for state-chartered savings banks, balance sheet availability at state-chartered co-operative banks, and election of the treasurer and other statutorily defined officers for state-chartered trust companies. There is also a provision relative to the streamlining the inclusion of various lists and other information required in the treasurer’s report to the board of directors.

- **Chapter 101 of the Acts of 2002, An Act Establishing a Limited Access Deposit Account**

  This Act adds a new section to both bank and credit union law in order to authorize the establishment of "limited access" or protected deposit accounts.

- **Chapter 292 of the Acts of 2002, An Act Relative to the Powers of State-Chartered Banks**

  This Act rewrites the first two sentences of General Laws chapter 167F, section 2, paragraph 31 in order to broaden the wild card powers, so-called, for state-chartered banks by authorizing such banks to exercise any power and engage in any activity that is permissible for any federal bank or an out-of-state bank in accordance with regulations promulgated by the Commissioner of Banks.

- **Chapter 340 of the Acts of 2002, An Act Relative to Bank and Credit Union Retirement Associations**

  This Act rewrites the statutes governing the three separate and distinct retirement associations for employees of certain state-chartered financial institutions specifically established by provisions of the Massachusetts General Laws. The three financial institutions are state-chartered savings banks, co-operative banks, and credit unions.

- **Chapter 356 of the Acts of 2002, An Act Relative to Credit Union Real Estate Loans**

  This Act makes significant changes to the process by which a state-chartered credit union approves real estate mortgage loan applications for its members. This Act essentially allows a credit union to approve a real estate loan in a speedier time period by delegating such authority to loan officers.

- **Chapter 438 of the Acts of 2002, An Act Making Certain Corrective Changes in Certain General and Special Laws**

  This Act amends subpart (iv) of clause (q) of the credit union investment statute, Section 67 of General Laws chapter 171, to correct a grammatical error and to make it clear that if a state-chartered credit union wishes to invest in certificates of deposit having a maturity not in excess of two years in a banking corporation and such corporation has its principal office outside the Commonwealth, then it must be a member of the Federal Reserve.

- **Chapter 454 of the Acts of 2002, An Act Relative to Credit Unions**

  This Act inserts a new section, section 75B, into General Laws chapter 171, governing credit unions, in order to grant state- or federally-chartered credit unions the power to sell insurance products in the Commonwealth. It is modeled after the bank insurance sales statute, which was signed into law as Chapter 129 of the Acts of 1998.

- **Chapter 455 of the Acts of 2002, An Act Relative to the Collection and Dissemination of Certain Reports by the Division of Banks**

  This Act, which was a recommendation of the Division of Banks, relieves the regulatory burden on the Division and regulated entities by eliminating the requirement to collect certain information from regulated entities and to publish the information collected in the form of reports. Some of these reports were parts of Acts passed many years ago and were rarely sought or requested.

- **Chapter 456 of the Acts of 2002, An Act Relative to the Annual Report on the Banking Industry**

  This Act, which was also a recommendation of the Division of Banks, makes significant changes to the form and content of the annual report of the Commissioner of Banks to the Legislature relative to the banking industry in the Commonwealth.

V. REGULATIONS

During 2002, several substantial amendments were made to the Division's regulations, reflecting significant focus on updating and strengthening the protections available to consumers seeking home mortgage loans and maintaining some consistency between state and federal protections. There were also substantive changes made to the Division's regulations providing state-chartered credit unions parity with their federal counterparts in order to enable them to offer a broader range of activities and services to their members and to help them remain competitive. In addition, there were several technical amendments to existing regulations, including the repeal of a regulation relative to Year 2000 Operational Safety and Soundness Standards, which had contained a sunset provision of December 31, 2001. Amendments to the following regulations were published in the Massachusetts Register during 2002:

High Cost Mortgage Loans

Amendments to the following regulations governing High Cost Mortgage Loans became effective on October 1, 2002:

- 209 CMR 32.00: Disclosure of Consumer Credit Costs and Terms;
- 209 CMR 40.00: Unfair and Deceptive Practices in Consumer Transactions; and
- 209 CMR 42.00: The Licensing of Mortgage Lenders and Mortgage Brokers

The main purpose of these amendments was to address certain abuses in the high cost loan industry by adopting certain changes to federal Regulation Z relative to high cost loans, which became effective on October 1, 2002 in order to maintain regulatory consistency among 209 CMR 32.00, 209 CMR 40.00 and Regulation Z. These amendments included two new disclosure requirements for high cost home loans and a prohibition against Due on Demand clauses. The purpose of the amendment to 209 CMR 42.00 was to amend cross-references relative to prohibited acts and practices by a licensed mortgage lender or mortgage broker.

PARITY WITH FEDERAL CREDIT UNIONS

Amendments to 209 CMR 50.00: Parity with Federal Credit Unions became effective August 16, 2002.

The enabling authority for the Parity with Federal Credit Union regulations was Chapter 223 of the Acts of 1998, An Act Relative to State-Chartered Credit Unions (the "Act"), which authorized the Division of Banks to propose regulations that would grant state-chartered credit unions certain expanded powers enjoyed by federally-chartered credit unions. The Division's regulation at 209 CMR 50.00 *et seq.* became effective on August 20, 1999. Pursuant to said Chapter 223, the Division is required to file the regulations and any proposed amendments with the Legislature for referral to the Joint Committee on Banks and Banking. The Division's proposed amendments were filed with the House Clerk on May 1, 2002.

The 2002 amendments to 209 CMR 50.00 *et seq*. authorized nine new authorities, clarified four existing authorities, and made several technical corrections. The proposed new authorities were as follows: specified incidental powers were added at 209 CMR 50.07; a new class of 97% loan-to-value residential loans was added at 209 CMR 50.06(3)(k)2.; a pilot investment program was established at 209 CMR 50.11; expedited approval for five-year 100% loan-to-value financing for automobiles was added at 209 CMR 50.06(3)(f); notice authority for the purchase and sale of consumer and mortgage loans for well-capitalized credit unions was added at 209 CMR 50.09(3)(c); for credit unions that have already received approval to establish Credit Union Service Organizations ("CUSO"), new notice authority for certain CUSO activities was added at 209 CMR 50.10; authority for CUSOs to invest in non-CUSO service providers was added at 209 CMR 50.06(3)(c)2.j and 209 CMR 50.10(3)g.; authority for CUSOs to engage in activities related to routine, daily operations was added at 209 CMR 50.06(3)2.k. and 209 CMR 50.10(3)h.; and authority for CUSOs to invest in or lend to federally-chartered CUSOs was added at 209 CMR 50.06(3)(c)1.

Several clarifications were also made to the regulations, the most significant of which was relative to residential mortgage loans as follows: 40-year first lien residential mortgage loans at 209 CMR 50.06(3)(j)1; 20-year closed-end second lien or non-purchase money first lien mortgages at 209 CMR 50.06(3)(j)2.; open-end second lien or non-purchase money first lien mortgages at 209 CMR 50.06(3)(j)3; and 95% loan-to-value residential mortgages at 209 CMR 50.06(3)(k)1.

TECHNICAL AMENDMENTS TO OTHER REGULATIONS

Technical amendments were made to several regulations, and included the repeal of 209 CMR 51.00: Year 2000 Operational Safety and Soundness Standards, in its entirety, effective January 3, 2003. This regulation had contained a sunset provision of December 31, 2001.

Technical amendments, all of which became effective on January 3, 2003, were made to the following regulations:

- 209 CMR 32.00: Disclosure of Consumer Credit Costs and Terms;
- 209 CMR 34.00: Maximum Loan Limitations for Certain Classes of Mortgage Loans Amendments; and
- 209 CMR 38.00: Disclosure of Certain Information and Terms Relative to the Mortgage Application and Approval Process.

VI. LEGISLATIVE RECOMMENDATIONS

The legislative recommendations of the Division of Banks for the 2003-2004 have several goals, but the overarching purpose is to protect consumers while enabling financial institutions and the Division's ten categories of licensees to remain competitive without compromising safety and soundness. One of the main focuses of the legislative package is to enhance statutory protections against predatory lending and other unfair mortgage lending-related practices. Several other recommendations seek to streamline and modernize existing laws. Included within this category is a recommendation to primarily rewrite Massachusetts General Laws chapter 167E, governing mortgage loans; another recommendation would eliminate the numerous inconsistencies in statutes relative to conversions of state-chartered institutions to federal charters; and a third recommendation would completely rewrite the debt collection statutes. In addition, there are also recommendations to overhaul many of the statutes governing the Division's ten categories of licensees to reflect modern practices, avoid duplication, provide consistency, and to strengthen the Division's ability to protect consumers through stronger licensing oversight and regulatory enforcement actions available to the Division.

- **An Act Relative to the Annual Report to the Legislature on the Banking Industry by the Commissioner of Banks, House 16**

  This recommendation became law after the legislative filing deadline as Chapter 456 of the Acts of 2002. This recommendation seeks to make significant changes to the form and content of the annual report of the Commissioner of Banks to the Legislature relative to the banking industry in the Commonwealth.

- **An Act Eliminating the Collection and Dissemination of Certain Reports by the Division of Banks, House 17**

  This recommendation became law after the legislative filing deadline as Chapter 455 of the Acts of 2002. This recommendation seeks to relieve the regulatory burden on the Division of Banks by eliminating the requirement to collect certain information from regulated entities and to publish the information collected in the form of reports.

The Division of Banks has filed twelve recommendations for consideration by the General Court in the 2003 and 2004 legislative session. Two of the proposals are new recommendations; three of the proposals combine significant new proposals as well as language from the previous recommendations; and seven of the proposals are refiles, with some modifications, from the previous legislative session. A brief description of each recommendation is set forth below.

The Division's two new legislative recommendations are as follows:

- **An Act Relative to the Conversion by a Massachusetts-Chartered Bank or Credit Union to a Federal or Other Charter, House 11**

  This recommendation provides the authority for a state-chartered bank or credit union to convert to a federal charter, and establishes the corporate governance structure for such a conversion. The provisions will establish the notice, meeting, and required vote of the member for a bank or credit union to convert its charter. Review of the notice, process, and approval by the Division are also specified in the recommendation.

- **An Act Relative to the Licensing and Supervision of Financing Companies by the Division of Banks, House 15**

  Currently, the Division licenses four different entities under four different statutes of the Massachusetts General Laws, which are involved primarily in the extension of credit to consumers. This recommendation seeks to combine the provisions of those four statutes into one new chapter of the Massachusetts General Laws governing finance companies. The new chapter would be a complete body of law governing this type of business as well as providing the Division with all necessary regulatory authority.

The Division's three recommendations combining new proposals with language from the previous legislative session are as follows:

- **An Act to Prevent Abusive Mortgage Lending Practices, House 9**

  This recommendation includes two recommendations from past filings and four new proposals, all related to abusive mortgage lending practices. One previously filed provision of this recommendation clarifies that services on a residential home which are secured by a lien on the property will require a mortgage lender license. The second previously filed provision makes several changes to the statute protecting consumers prepaying certain mortgage loans. The first new provision authorizes the Division to do fair lending examinations on any licensed mortgage lender making 50 or more loans in a year. The second new provision is to eliminate the licensing exemption for non-profit entities in Massachusetts General Laws chapter 255E, §2. The third new provision is to delete the exemption standard for "associated with and under the direction of…" in Massachusetts General Laws chapter 255E, §2, which governs exemptions from the mortgage lender and broker licensing statute. The fourth new provision eliminates simple interest mortgage loans.

- **An Act Relative to Confidentiality and Access to CORI Data, House 10**

  This recommendation combines one previously filed recommendation, as changed and expanded, and four new proposals. The amended provisions of the previously filed recommendation seek to establish the confidentiality of examination reports and other information of licensees of the Division of Banks. The first new proposal is to designate the Division as a "law enforcement agency" to have access to CORI data. The second new proposal would expand confidentiality provisions of bank examinations in section 2 of Massachusetts General Laws chapter 167. The third new proposal is an additional provision relative to sharing examination and licensing information with other states. The fourth new proposal authorizes the Commissioner to summon directors, officers or agents of a licensee, or any other witness to examine them relative to the affairs, transactions and condition of the licensee. Whoever, without justifiable cause, refuses to appear or obstructs such examination shall be punished by a fine of not more than $1,000 or by imprisonment for not more than one year.

- **An Act Establishing Uniform Enforcement Provisions and Making Other Changes Applicable to Certain Licensees under the Jurisdiction of the Division of Banks, House 14**

  This recommendation combines provisions from two previously filed recommendations, as well as new language to provide technical amendments to Massachusetts General Laws chapter 169, relative to the Receipts of Deposits for Transmittal to Foreign Countries.

  The amended provisions of the first previously filed recommendation seek to establish a uniform set of regulatory enforcement powers and exemptions with respect to several licensees under the jurisdiction of the Division. It also addresses the confidentiality of the Division's examinations of these licensees. The recommendation also seeks to update the coverage of the statute governing loans of $6,000 or less for small loans, so-called by increasing the amount from $6,000 to $9,000 with an annual adjustment based on the Consumer Price Index.

  The provisions of the second previously filed recommendation seek to create a uniform exemption for regulated financial institutions from the statutes governing licensees and to make two more of the Division's licensing statutes, relative to collection agencies and check sellers, applicable exclusively to consumer transactions. This recommendation includes the Division's proposed amendments to allow the Division to set annual renewal dates for licensees.

  The technical amendments to chapter 169 would update the Commonwealth's statute governing the licensure of foreign transmittal agencies.

The Division's remaining seven recommendations were before the Legislature in some form in the past session or sessions. They have been updated and modified to reflect amendments made or offered as well as to reflect other changes which may have occurred.

- **An Act Modernizing Lending and Investment Statutes for State-Chartered Banks, House 12**

  This recommendation seeks to substantially modify and modernize Massachusetts General Laws chapter 167E, governing loans by state-chartered banks. One major change is also made in chapter 167F, governing investments by state-chartered banks, to reflect passage of the Gramm-Leach-Bliley federal act.

- **An Act Relative to Debt Collection and Loan Servicing Agencies Subject to Supervision by the Division of Banks, House 13**

  This recommendation substantially rewrites the debt collection agency laws. It would modernize the enforcement actions available to the Commissioner and add a provision requiring third party loan servicers, as defined, to register with the Division. Other changes are also made.

- **An Act Relative to Certain Actions by and Transactions before the Board of Bank Incorporation and the Commissioner of Banks, House 18**

  This recommendation seeks to streamline the approval process for transactions involving interim banks and bank holding companies.

- **An Act Relative to the Establishment of a Limited Purpose Trust Company Subject to the Supervision of the Commissioner of Banks, House 19**

  This recommendation of the Division of Banks seeks to authorize a charter for a non-FDIC insured limited purpose trust company in the Commonwealth to conduct only trust and fiduciary operations while neither receiving deposits nor making loans.

- **An Act Relative to Establishing a Mutual Bank Charter in the Commonwealth, House 20**

  This recommendation seeks to establish a new bank charter within the General Laws for a mutual bank.

- **An Act Relative to the Annual Report to the Legislature on the Banking Industry by the Commissioner of Banks, House 16**

  This recommendation of the Division of Banks seeks to make significant changes to the form and content of the annual report of the Commissioner of Banks to the Legislature relative to the banking industry in the Commonwealth. This recommendation, which also had been filed during the 2001-2002 legislative session, was signed into law as Chapter 456 of the Acts of 2002.

- **An Act Eliminating the Collection and Dissemination of Certain Reports by the Division of Banks, House 17**

This recommendation seeks to relieve the regulatory burden on the Division of Banks by eliminating the requirement to collect certain information from regulated entities and to publish the information collected in the form of reports. This recommendation, which also had been filed during the 2001-2002 legislative session, was signed into law as Chapter 455 of the Acts of 2002.

TRUST COMPANIES

The Commonwealth's trust companies had a notable calendar year in 2002, growing by $18,475,148, or 20.85%. The historically low interest rate environment and instability in capital markets fueled the growth. The instability in the capital markets resulted in an influx of interest bearing deposits, which grew by $12,473,498, or almost 30%. The largest area of growth was in investment securities, which grew by $10,348,824, or almost 36%. At the same time, loans and leases grew by 7.32%, or $973,820.

Earnings performance remained solid in 2002. Despite the further decline in market rates, net interest income increased $22,624, or 1.27%. The increase in net interest income is due to management's ability to lower the aggregate cost of deposits faster than loans were able to reprice down. Declines in virtually all capital market indices affected income from fiduciary activities, trading revenues, investment banking, advisory, brokerage fees, and commissions. However, gains on the sale of assets and all other noninterest income served to compensate for the aforementioned declines. Additionally, realized gains on the sale of securities increased by 63.51%, or $32,974. At the same time, management has been able to control noninterest expenses, as evidenced by the modest $62,101, or 1.34% increase. Finally, net income for the period increased by $64,059, or 5.19%.

Throughout 2002, the Commonwealth's trust companies combined equity capital grew by $1,213,500, or 19.63%. Despite the strong increase in combined equity capital growth, the industry's overall capital to assets declined slightly from 6.98% in 2001 to 6.91% in 2002. The decline is again the result of asset growth outpacing capital augmentation. The industry as a whole is well positioned to improve upon 2002's impressive operating results.

* All dollar amounts are reported in thousands.

Trust Companies
Statement of Condition - December 31, 2002

Assets	12/31/2001	12/31/2002
Non Interest Bearing Balances	$ 2,396,091	$ 2,099,875
Interest Bearing Balances	21,082,975	28,749,428
Securities Held to Maturity	5,148,220	5,510,006
Securities Available for Sale	23,774,314	33,761,352
Federal Funds Sold & Securities Purchased Under Agreement to Resell	16,634,243	15,103,957
Loans and Leases Held for Sale	237,280	259,240
Loans and Leases ,net of Unearned Income	13,298,492	14,272,312
Allowance for Loan and Lease Losses	176,019	205,998
Net Loans and Leases	13,122,423	14,066,314
Trading Assets	1,784,431	2,863,805
Bank Premises and Equipment	832,560	791,781
Other Real Estate Owned	3,299	5,571
Investment in Unconsolidated Subsidiaries	37,281	36,839
Customers Acceptances Outstanding	54,617	101,331
Goodwill	834,775	783,155
Intangible Assets	173,086	158,120
Other Assets	2,484,652	2,784,671
Total Assets	**88,600,297**	**107,075,445**
Liabilities		
Non Interest Bearing Deposits	12,902,999	10,794,873
Interest Bearing Deposits	42,071,821	54,545,319
Total Deposits	54,974,820	65,340,192
Federal Funds Purchased & Securities Sold Under Agreement to Repurchase	21,496,892	24,008,296
Trade Liabilities	1,059,907	2,373,032
Other Borrowed Money	2,321,037	4,435,676
Liabilities on Acceptances	54,617	101,331
Subordinated Notes and Debentures	700	700
Other Liabilities	2,429,028	3,383,456
Total Liabilities	**82,337,001**	**99,642,683**
Minority Interest in Consolidated Subsidiaries	80,599	36,565
Equity		
Preferred Stock	19,257	23,461
Common Stock	92,014	95,064
Surplus	1,810,213	1,869,684
Retained Earnings	4,208,791	5,239,515
Accumulated Other Comprehensive Income	83,876	205,138
Other Equity Capital	(31,454)	(36,665)
Total Equity Capital	**6,182,697**	**7,396,197**
Total Liabilities, Minority Interest and Equity Capital	**88,600,297**	**107,075,445**

* All dollar amounts are reported in thousands.

Trust Companies

Statement of Income - December 31, 2002

	12/31/2001	12/31/2002
Total Interest Income	$ 3,939,595	$ 3,057,547
Total Interest Expense	2,152,312	1,247,640
Net Interest Income	**1,787,283**	**1,809,907**
Provision for Loan and Lease Losses	7,171	29,053
Income From Fiduciary Activities	3,291,301	3,272,848
Service Charges	44,053	62,279
Trading Revenue	320,361	230,794
Investment Banking, Advisory, Brokerage fees and Commissions	296,947	162,169
Venture Capital Revenue	(21)	(1,061)
Net Servicing Fees	12,645	13,277
Net Securitization Income	3,259	690
Insurance Commission and Fees	367	378
Net Gains (Losses) on sale of Assets	31,801	568,569
All Other Noninterest Income	237,954	515,361
Total Noninterest Income	**4,555,641**	**4,825,304**
Realized Gains (Losses) on Held-To-Maturity Securities		(4,320)
Realized Gains (Losses) on Available-For-Sale Securities	51,916	89,210
Salaries and Employee Benefits	2,389,368	2,489,972
Expenses of Premises and Fixed Assets	727,925	760,226
Goodwill Impairment Losses		
Amortized Expenses and Impairment Loss For Other Intangibles	78,196	27,601
Other Noninterest Expense	1,426,941	1,406,732
Total Noninterest Expense	**4,622,430**	**4,684,531**
Income (Loss) Before Income Taxes	1,765,238	2,006,517
Applicable Income Taxes	530,787	705,087
Income (Loss) Before Extraordinary Items	1,234,451	1,301,430
Extraordinary Items	(797)	(3,717)
Net Income (Loss)	**1,233,654**	**1,297,713**

* All dollar amounts are reported in thousands.

SAVINGS BANKS

The savings bank industry within the Commonwealth experienced strong asset growth of $6,885,885, or 10.73% from calendar year end 2001 to 2002. The largest areas of asset growth were in investment securities and loans and leases. Investment securities grew by $4,528,391 or 23.64%, while loans and leases grew by $1,807,304, or 4.74%. The dramatic increase in investment securities was largely due to an influx of deposits. The faltering stock market in 2002 resulted in investors withdrawing from mutual funds and selling-off equity investments with much of the proceeds deposited in short-term interest bearing deposit accounts. The modest increase in loans from $38,088,451 to $39,895,755, or 4.74% by no means reflects the activity within the real estate market throughout the year. The strength of the residential real estate market was an important factor in the continued success of the industry; however, due to the current record low interest rate environment, many savings banks opted to originate and immediately sell residential mortgage loans into the secondary market. The sale of loans on the secondary market accomplishes two objectives: it helps to minimize the banks exposure to interest rate fluctuations and provides income in the form of origination related fees. A further reflection of the condition of the industry is the decline in other real estate owned from $31,603 on December 31, 2001 to $30,477 on December 31, 2002. The 3.56% decline is reflective of continued sound underwriting and credit administration practices in effect at the institutions.

At the same time, savings banks continued to expand their customer base through increased branch networking and canvassing the internet. Investment in premises and equipment increased by $41,342, or 5.72%. Additionally, more institutions expanded the utility of their internet presence by offering customers not only the ability to obtain updated information, but also the ability to conduct transactions.

Earnings performance for the industry also continues to be sound. Despite the continued decline in market interest rates, net interest income increased $147,677, or 7.10%. The increase in net interest income is due to management's ability to lower the aggregate cost of deposits faster than the loan portfolio repriced down. At the same time, management has been able to control costs, as evidenced by the $52,874, or 3.38% increase in noninterest expenses. Management's ability to control costs, while managing the balance to maintain income has resulted in the $115,007, or 20.65% increase in net income.

Overall, the savings bank industry had the financial strength and leadership to successfully weather the myriad of social and economic issues encountered in 2002. From corporate scandals, bankruptcy filings, layoffs, accounting irregularities, and the war with Iraq, 2002 clearly illustrates the importance of a strong banking industry to the citizens of the Commonwealth. With a combined capital to assets ratio of 10.65% on December 31, 2002, and experienced management teams, the savings bank industry is well positioned to thrive in calendar year 2003.

* All dollar amounts are reported in thousands.

Savings Banks

Statement of Condition - December 31, 2002

Assets	**12/31/2001**	**12/31/2002**
Non Interest Bearing Balances	$ 1,214,775	$ 1,368,173
Interest Bearing Balances	290,063	165,854
Securities Held to Maturity	1,826,332	1,976,309
Securities Available for Sale	17,325,883	21,704,297
Federal Funds Sold	1,440,485	1,450,341
Securities Purchased Under Agreement to Resell		27,700
Loans and Leases Held for Sale	388,900	501,217
Loans and Leases ,net of Unearned Income	38,088,451	39,895,755
Allowance for Loan and Lease Losses	523,695	529,806
Net Loans and Leases	37,564,756	39,366,949
Trading Assets	28,006	65,344
Bank Premises and Equipment	722,507	763,849
Other Real Estate Owned	31,603	30,477
Investment in Unconsolidated Subsidiaries	586	530
Customers Acceptances Outstanding	1,208	3,075
Goodwill	1,535,378	1,715,680
Intangible Assets	156,037	204,506
Other Assets	1,636,117	1,705,220
Total Assets	**64,162,636**	**71,048,521**
Liabilities		
Non Interest Bearing Deposits	5,253,956	5,864,373
Interest Bearing Deposits	43,683,383	48,861,155
Total Deposits	48,937,339	54,725,528
Federal Funds Purchased	2,089,049	98,352
Securities Sold under Agreement to Repurchase		2,464,138
Trade Liabilities		
Other Borrowed Money	5,127,148	5,025,309
Liabilities on Acceptances	1,208	3,075
Subordinated Notes and Debentures	300,000	300,000
Other Liabilities	718,147	865,411
Total Liabilities	**57,172,891**	**63,481,813**
Minority Interest in Consolidated Subsidiaries	1,199	1,189
Equity		
Preferred Stock	329	283
Common Stock	35,388	33,898
Surplus	4,530,445	4,754,127
Retained Earnings	2,164,797	2,411,959
Accumulated Other Comprehensive Income	272,869	379,376
Other Equity Capital	(15,282)	(14,124)
Total Equity Capital	**6,988,546**	**7,565,519**
Total Liabilities, Minority Interest and Equity Capital	**64,162,636**	**71,048,521**

* All dollar amounts are reported in thousands.

Savings Banks
Statement of Income - December 31, 2002

	12/31/2001	12/31/2002
Total Interest Income	$ 3,986,454	$ 3,639,341
Total Interest Expense	1,906,671	1,411,881
Net Interest Income	**2,079,783**	**2,227,460**
Provision for Loan and Lease Losses	136,699	100,010
Income From Fiduciary Activities	11,605	23,084
Service Charges	149,164	163,808
Trading Revenue	1,307	1,604
Investment Banking, Advisory, Brokerage fees and Commissions	20,122	25,645
Venture Capital Revenue	(1,282)	(1,996)
Net Servicing Fees	10,346	(5,163)
Net Securitization Income	31	80
Insurance Commission and Fees	24,088	30,070
Net Gains (Losses) on sale of Assets	72,051	74,923
All Other Noninterest Income	175,158	163,765
Total Noninterest Income	**462,590**	**475,820**
Realized Gains (Losses) on Held-To-Maturity Securities	310	(128)
Realized Gains (Losses) on Available-For-Sale Securities	31,043	30,826
Salaries and Employee Benefits	771,155	879,609
Expenses of Premises and Fixed Assets	227,705	234,907
Goodwill Impairment Losses		144
Amortized Expenses and Impairment Loss For Other Intangibles	104,752	18,490
Other Noninterest Expense	458,035	481,371
Total Noninterest Expense	**1,561,647**	**1,614,521**
Income (Loss) Before Income Taxes	875,380	1,019,447
Applicable Income Taxes	318,019	347,135
Income (Loss) Before Extraordinary Items	557,361	672,312
Extraordinary Items	(493)	(437)
Net Income (Loss)	**556,868**	**671,875**

* All dollar amounts are reported in thousands.

CO-OPERATIVE BANKS

The co-operative bank industry within the Commonwealth experienced solid asset growth of $881,537, or 8.23% in calendar year 2002, which was funded in large part through increases in deposit accounts. Deposit account growth of $744,750, or 8.43%, appears to be the result of a faltering stock market in 2002. Many investors withdrew from mutual funds and sold equity investments, with much of the proceeds deposited in short-term deposit accounts. The largest area of asset growth was in investment securities, which grew by $519,724, or 23.87%. The historically low interest rate environment and increased competition within the mortgage origination arena resulted in moderate loan growth. Gross loans grew by $209,626; however, this amount represents an increase of only 2.85% over 2001. Nevertheless, the residential real estate market fueled the success of the cooperative banks and continues to be an integral aspect of their business. Worthy of note is the decline of real estate owned within the industry's balance sheet, especially given the sluggish economy, significant job layoffs, and intense competition. Other real estate owned declined by $449, or 15.60%. The decline is reflective of continued sound underwriting and credit administration practices in effect.

The co-operative bank industry expanded investment in its branch network and technology infrastructure. Premises and equipment increased by $16,400, or 9.97%. The use of additional delivery channels including the internet has expanded the industry's ability to prosper in an ever-changing marketplace.

Earnings performance for the industry also continues to be healthy. Despite a further decline in market interest rates, net interest income improved by $44,121, or 12.38%. The increase in net interest income is due to management's ability to lower the aggregate cost of deposits faster than the loan portfolio repriced down. Further enhancing income is the increase in net gains on the sale of assets from $9,131 in 2001 to $15,459 in 2002, or 69.30%. However, due to fluctuations in the stock market and more scrutiny on the treatment of equity investments with high levels of depreciation, losses on the sale of securities were $5,342. Nevertheless, management's ability to limit increases in noninterest expenses to $21,277, or just over 8%, has resulted in the 16.83%, or $14,611 improvement in net income.

Overall, the co-operative bank industry faired well in 2002. Experienced management teams augmented the financial condition of the co-operative bank industry. With a combined capital to assets ratio of 10.65% on December 31, 2002, the co-operative bank industry is well positioned to continue to serve the citizens of the Commonwealth.

* All dollar amounts are reported in thousands.

Co-operative Banks

Statement of Condition – December 31, 2002

Assets	12/31/2001	12/31/2002
Non Interest Bearing Balances	$ 266,391	$ 288,789
Interest Bearing Balances	130,224	117,906
Securities Held to Maturity	504,931	667,316
Securities Available for Sale	1,710,194	2,067,533
Federal Funds Sold	309,743	325,060
Securities Purchased Under Agreement to Resell		838
Loans and Leases Held for Sale	51,100	93,700
Loans and Leases ,net of Unearned Income	7,357,497	7,567,337
Allowance for Loan and Lease Losses	70,433	74,769
Net Loans and Leases	7,286,596	7,492,568
Trading Assets	2,454	
Bank Premises and Equipment	164,443	180,843
Other Real Estate Owned	2,878	2,429
Investment in Unconsolidated Subsidiaries	12	
Customers Acceptances Outstanding		
Goodwill	2,304	2,232
Intangible Assets	2,331	3,753
Other Assets	277,344	350,611
Total Assets	**10,711,929**	**11,593,578**
Liabilities		
Non Interest Bearing Deposits	624,424	743,456
Interest Bearing Deposits	8,205,221	8,830,945
Total Deposits	8,829,645	9,574,401
Federal Funds Purchased	16,514	4,307
Securities Sold under Agreement to Repurchase		5,685
Trade Liabilities		
Other Borrowed Money	665,795	714,838
Liabilities on Acceptances		
Subordinated Notes and Debentures		
Other Liabilities	56,559	59,199
Total Liabilities	**9,568,513**	**10,358,430**
Minority Interest in Consolidated Subsidiaries	271	370
Equity		
Preferred Stock	55	55
Common Stock	20,796	20,753
Surplus	821,641	826,765
Retained Earnings	293,377	372,449
Accumulated Other Comprehensive Income	7,538	17,583
Other Equity Capital	(262)	(2,827)
Total Equity Capital	**1,143,145**	**1,234,778**
Total Liabilities, Minority Interest and Equity Capital	**10,711,929**	**11,593,578**

* All dollar amounts are reported in thousands.

Co-operative Banks
Statement of Income – December 31, 2002

	12/31/2001	12/31/2002
Total Interest Income	$ 696,082	$ 665,925
Total Interest Expense	339,573	265,295
Net Interest Income	**356,509**	**400,630**
Provision for Loan and Lease Losses	6,051	5,570
Income From Fiduciary Activities	3,287	-
Service Charges	16,424	18,592
Trading Revenue	199	(461)
Investment Banking, Advisory, Brokerage fees and Commissions	437	726
Venture Capital Revenue	-	-
Net Servicing Fees	2,421	2,185
Net Securitization Income	-	-
Insurance Commission and Fees	251	767
Net Gains (Losses) on sale of Assets	9,131	15,459
All Other Noninterest Income	15,448	16,139
Total Noninterest Income	**47,598**	**53,407**
Realized Gains (Losses) on Held-To-Maturity Securities	34	63
Realized Gains (Losses) on Available-For-Sale Securities	1,322	(5,342)
Salaries and Employee Benefits	143,261	155,430
Expenses of Premises and Fixed Assets	32,164	33,199
Goodwill Impairment Losses		72
Amortized Expenses and Impairment Loss For Other Intangibles	392	144
Other Noninterest Expense	87,088	95,337
Total Noninterest Expense	**262,905**	**284,182**
Income (Loss) Before Income Taxes	136,507	159,006
Applicable Income Taxes	49,715	57,699
Income (Loss) Before Extraordinary Items	86,792	101,307
Extraordinary Items	-	96
Net Income (Loss)	**86,792**	**101,403**

* All dollar amounts are reported in thousands.

CREDIT UNIONS

The year 2002 was a strong year for the Commonwealth's credit unions, as evidenced by total assets increasing to $10,014,687, or 10.31%. The wavering stock market and uncertainty in the national economy have prompted increased deposits from credit union members, as total shares grew to $8,776,082, from $7,937,591, or 23.71%. Much of the asset growth was in investments and deposits in other financial institutions, which grew to $3,955,744 from $3,228,059, or 22.54%. Despite a sluggish stock market, net unrealized gains on available-for-sale securities increased to $36,732 or 25.48%. A strong real estate market combined with the increased lending authority through amendments to the Massachusetts General Laws and Code of Massachusetts Regulation's *Parity with Federal Credit Unions* allowed credit unions to maintain growth in their loan portfolios, as total loans increased to $5,860,000 from $5,598,378, or 4.68%. Despite increased risk through expanded lending authority and a higher unemployment rate, credit unions were been able to maintain low loan losses and maintain adequate loan loss reserves. During 2002, Massachusetts state-chartered credit unions recorded no other real estate owned, a decline from $469 in 2001 and total loan loss reserves increased only modestly to $37,631 from $36,728, or growth of 2.46%. This is reflective of continued strong management and sound loan underwriting.

The credit union movement has continued to expand and evolve in the Commonwealth. During 2002, credit unions expanded through branching, expanded banking facilities, improved equipment, and increased internet banking to meet the needs of their membership. Fixed assets increased to $113,988 from $105,173, or 8.38%. Despite the increased investment in fixed assets, reserves remained strong with total equity capital increasing to $1,140,768 from $1,238,535, or 8.57%. The strong capital position is largely due to the credit unions' ability to increase their earnings, as net income increased to $88,920 from $70,531, or 26.07%.

* All dollar amounts are reported in thousands.

Credit Unions

Statement of Condition - December 31, 2002

Assets	12/31/2001	12/31/2002
Cash and Investments	$ 3,228,059	$ 3,955,744
Loans and Leases ,net of Unearned Income	5,598,378	5,860,563
Allowance for Loan and Lease Losses	36,728	37,631
Net Loans and Leases	5,561,650	5,822,932
Land and Building	105,173	113,988
Other Fixed Assets	28,269	27,451
Other Real Estate Owned	469	-
Other Assets	154,739	94,572
Total Assets	**9,078,359**	**10,014,687**
Liabilities		
Total Shares and Deposits	7,594,857	8,395,791
Total Borrowings	290,717	324,781
Accrued Dividends Payable on Shares	2,270	1,188
Accounts Payable and Other Liabilities	49,747	54,322
Total Liabilities	**7,937,591**	**8,776,082**
Regular Reserves	285,700	265,636
Appropriation for Non-Conforming Investments	388	438
Undivided Earnings	825,211	933,336
Other Comprehensive Income (Loss)		70
Net Unrealized Gain/(Loss) on AFS	27,373	36,732
Other Reserves	2,096	2,393
Total Equity Capital	**1,140,768**	**1,238,535**
Total Liabilities + Equity Capital	**9,078,359**	**10,014,687**

***** All dollar amounts are reported in thousands.

Credit Union

Statement of Income - December 31, 2002

	12/31/2001	12/31/2002
Total Interest Income	$ 565,858	$ 544,404
Total Interest Expense	297,988	242,033
Net Interest Income	**267,870**	**302,371**
Provision for Loan and Lease Losses	**12,836**	**15,215**
Fee Income	30,957	34,407
Other Operating Income	11,500	12,359
Gain (Loss) on Investments	1,759	2,696
Gain (Loss) on Disposition of Fixed Assets	(117)	393
Other Non-Operating Income	261	3,655
Total Noninterest Income	**44,360**	**53,510**
Employee Compensation and Benefits	117,444	129,456
Education and Promotional Expense	8,514	9,550
Loan Servicing Expense	6,873	7,946
Professional and Outside Services	19,994	24,411
Member Insurance	2,468	2,695
Operating Fees	1,100	1,261
Miscellaneous Operating Expenses	6,543	7,874
Travel and Conference Expense	3,671	3,829
Office Occupancy Expense	18,794	19,967
Office Operation Expense	43,462	44,757
Total Non-Interest Expense	**228,863**	**251,746**
Net Income (Loss)	**70,531**	**88,920**

* All dollar amounts reported in thousands.